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No rooms for the inn in this high-rise

Tight times halt Fairmont's expansion in Aqua

By Ameet Sachdev and Jim Kirk

Chicago Tribune reporters

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The ongoing credit crisis has put the brakes on a high-profile hotel project downtown.

Chicago-based Strategic Hotels & Resorts Inc. said Friday it no longer plans to expand its Fairmont Chicago into the Aqua high-rise under construction across the street from the hotel. Strategic expects to take a charge against third-quarter earnings to cancel an \$82 million contract to buy 15 floors in the tower.

"One has to be conservative in this market," said Laurence Geller, Strategic's chief executive and president. "Despite the opportunities this property presents, the financial markets and economic operating environment have changed significantly since we first entered into the agreement to purchase the space in 2006."

Strategic's pullout adds to the turmoil in the downtown hotel market. Construction appears to have stalled at two other projects, the 90-story Waterview Tower and Shangri-La Hotel at 111 W. Wacker Drive and the 206-room Staybridge Suites at LaSalle and Huron Streets. Several other projects on the drawing board will likely be tabled as lenders have raised borrowing costs and asked developers to put more money upfront, said Ted Mandigo, an Elmhurst-based industry consultant.

In addition to the credit crunch, hotel investors face declining occupancy and little growth in average daily room rates in downtown Chicago because businesses and consumers are being more cautious about travel.

Geller anticipates the pace of bookings will continue to slide next year. Despite dismal conditions, new hotels have opened in recent months, including the 92-story Trump International Hotel & Tower on Wabash Avenue and the Dana Hotel & Spa, at 660 N. State St.

Geller indicated it wasn't a lack of financing that led to scrapping the Fairmont expansion. The decision had to do with preserving capital in a declining market. Geller said the company would have had to invest another \$100 million on top of the \$36 million it had plowed into the deal.

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"I think we will be very leery of investing until we are sure what the downside is in the markets," Geller said.

Strategic, a real estate investment trust, hinted in August that it might scrap the Fairmont expansion when it told analysts it was considering delaying projects to conserve cash. The \$36 million charge includes the loss of a \$28 million deposit that secured the contract and \$8 million in planning and development costs.

The company's stock rose 3 cents, to \$6.15, Friday on the New York Stock Exchange. But shares are off 63 percent this year.

The loss of 225 hotel rooms leaves a gaping hole in the 81-story Aqua building.

The project's developer, Chicago-based Magellan Development Group LLC, said it is not ready to talk about future use of that space. Construction is continuing, with the first condominiums expected to be completed in the fourth quarter of 2009, said Magellan co-CEO Joel Carlins.

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